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Social Security: The Trust Funds

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Summary

The Social Security program pays monthly cash benefits to retired or disabled workers and their family members, and to the family members of deceased workers. Program income and outgo are accounted for in two separate trust funds authorized under Title II of the Social Security Act: the Federal Old-Age and Survivors Insurance (OASI) trust fund and the Federal Disability Insurance (DI) trust fund. Current projections show that the OASI fund will remain solvent until 2035, whereas the DI fund will remain solvent only until the end of 2016, meaning that each trust fund can pay benefits scheduled under current law *in full and on time* up to that point. Following the depletion of trust fund reserves (2016 for DI and 2035 for OASI), continuing income is projected to cover 81% of benefits paid from the DI fund and 77% of benefits paid from the OASI fund. While the two trust funds are legally distinct and do not have authority to borrow from each other, Congress has authorized the shifting of funds between OASI and DI in the past to address shortfalls. Therefore, this CRS report discusses the operations of the OASI and DI trust funds on a combined basis, referring to them collectively as the *Social Security trust funds*. On a combined basis, the trust funds are projected to remain solvent until 2034, at which point continuing income is projected to cover 79% of program costs. (For details on the DI fund, see CRS Report R43318, *Social Security Disability Insurance (DI) Trust Fund: Background and Solvency Issues*.)

Social Security is financed by payroll taxes paid by covered workers and their employers, federal income taxes paid by some beneficiaries on a portion of their benefits, and interest income from the Social Security trust fund investments. Social Security tax revenues are invested in federal government securities (special issues) held by the trust funds, and these federal government securities earn interest. The tax revenues exchanged for the federal government securities are deposited into the general fund of the U.S. Treasury and are indistinguishable from revenues in the general fund that come from other sources. Because the assets held by the trust funds are federal government securities, the trust fund balance represents the amount of money owed to the Social Security trust funds by the general fund of the U.S. Treasury. Funds needed to pay Social Security benefits and administrative expenses come from the redemption or sale of federal government securities held by the trust funds.

The Social Security trust funds represent funds dedicated to pay current and future Social Security benefits. However, it is useful to view the trust funds in two ways: (1) as an internal federal accounting concept and (2) as the accumulated holdings of the Social Security program.

For internal accounting purposes, certain accounts within the U.S. Treasury are designated by law as trust funds to track revenues (and expenditures) dedicated for specific purposes. There are a number of trust funds in the U.S. Treasury, including those for Social Security, Medicare, unemployment compensation, and federal employee retirement.

By law, Social Security tax revenues must be invested in U.S. government obligations (debt instruments of the U.S. government). The accumulated holdings of U.S. government obligations are often viewed as being similar to assets held by any other trust on behalf of the beneficiaries. However, the holdings of the Social Security trust funds differ from those of private trusts because (1) the types of investments the trust funds may hold are limited and (2) the U.S. government is both the buyer and seller of the investments.

This report covers how the Social Security program is financed and how the Social Security trust funds work. It will be updated annually to reflect current projections of the financial status of the Social Security trust funds.

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Introduction

The Social Security program pays benefits to retired or disabled workers and their family members, and to the family members of deceased workers.[1] As of June 2015, there were nearly 60 million Social Security beneficiaries. Approximately 67% of those beneficiaries were retired workers and 15% were disabled workers. The remaining beneficiaries were survivors, or the spouses and children of retired or disabled workers.[2]

Social Security is financed primarily by payroll taxes paid by covered workers and their employers. The program is also credited with federal income taxes paid by some beneficiaries on a portion of their benefits, reimbursements from the general fund of the Treasury for various purposes, and interest income from the Social Security trust fund investments. Social Security tax revenues are invested in federal government securities (special issues) held by the trust funds, and these federal government securities earn interest. The tax revenues exchanged for the federal government securities are deposited into the general fund of the U.S. Treasury and are indistinguishable from revenues in the general fund that come from other sources. Because the assets held by the trust funds are federal government securities, the trust fund balance represents the amount of money owed to the Social Security trust funds by the general fund of the Treasury. Funds needed to pay Social Security benefits and administrative expenses come from the redemption or sale of federal government securities held by the trust funds.[3]

The Secretary of the Treasury (as the Managing Trustee of the Social Security trust funds) is required by law to invest Social Security revenues in securities backed by the U.S. government.[4] The purchase of government securities allows any surplus Social Security revenues to be used for other (non-Social Security) government spending needs at the time.[5]

The Social Security trust funds are both designated accounts within the Treasury and the accumulated holdings of special U.S. government obligations. Both represent the funds designated to pay current and future Social Security benefits.

How the Social Security Program Is Financed

The Social Security program is financed primarily by revenues from Federal Insurance Contributions Act (FICA) taxes and Self-Employment Contributions Act (SECA) taxes. FICA taxes are paid by both employers and employees, but it is employers who remit the taxes to the Treasury. Employers remit FICA taxes on a regular basis throughout the year (for example,

[1] A person may receive retired-worker benefits and continue to have earnings from work. If a person is below the full retirement age and earnings are above a specified amount, benefits are withheld in part or in full under the Retirement Earnings Test. For more information, see Social Security Administration (SSA), *Social Security: How Work Affects Your Benefits*, Publication No. 05-10069, January 2015, at http://www.socialsecurity.gov/pubs/EN-05-10069.pdf.

[2] SSA, *Monthly Statistical Snapshot, June 2015*, Table 2. The latest edition of the *Monthly Statistical Snapshot* is available at http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/index.html.

[3] SSA, *Trust Fund FAQs*, at http://www.socialsecurity.gov/OACT/ProgData/fundFAQ.html.

[4] Social Security Act, Title II, §201(d). For more information, see SSA, Office of the Chief Actuary, Actuarial Note Number 142, *Social Security Trust Fund Investment Policies and Practices*, by Jeffrey L. Kunkel, January 1999, at http://www.ssa.gov/OACT/NOTES/n1990s.html.

[5] This is often referred to as "borrowing from the Social Security trust funds."

weekly, monthly, quarterly or annually), depending on the employer's level of total employment taxes (including FICA and federal personal income tax withholding). The FICA tax rate of 7.65% each for employers and employees has two components: 6.2% for Social Security and 1.45% for Medicare Hospital Insurance. The SECA tax rate is 15.3% for self-employed individuals, with 12.4% for Social Security and 2.9% for Medicare Hospital Insurance. The respective Social Security contribution rates are levied on covered wages and net self-employment income up to $118,500 in 2015.[6] Self-employed individuals may deduct one-half of the SECA taxes for federal income tax purposes.[7] SECA taxes are normally paid once a year as part of filing an annual individual income tax return. In 2014, Social Security payroll taxes totaled $756 billion and accounted for 85% of the program's total income.[8]

In addition to payroll taxes, the Social Security program receives income from other sources. First, certain Social Security beneficiaries must include a portion of their Social Security benefits in taxable income for the federal income tax, and the Social Security program receives a portion of those taxes.[9] In 2014, revenue from the taxation of benefits totaled $30 billion, accounting for 3% of the program's total income. Second, the program receives reimbursements from the general fund of the Treasury for a variety of purposes.[10] General fund reimbursements totaled $0.5 billion, accounting for 0.05% of the program's total income. Finally, the Social Security program receives interest income from the Treasury on its investments in special federal government obligations. Interest income totaled $98 billion, accounting for 11% of the program's total income.[11]

The Internal Revenue Service (IRS) processes the tax returns and tax payments for federal employment taxes and federal individual income taxes. All of the tax payments are deposited in the Treasury along with all other receipts from the public for the federal government.

[6] The limit on wages and net self-employment income subject to the Social Security payroll tax (the taxable wage base) is adjusted annually based on average wage growth, if a Social Security cost-of-living adjustment (COLA) is payable. Because no COLA was payable in 2010 and 2011, the taxable wage base remained at its 2009 level ($106,800) in 2010 and 2011. For more information on the COLA, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*, by Gary Sidor. The Medicare Hospital Insurance component of the FICA/SECA tax is levied on total wages. In addition, the Patient Protection and Affordable Care Act (ACA; P.L. 111-148, as amended) imposes an additional 0.9% tax on high-income workers with wages and self-employment income over $200,000 for single filers and $250,000 for joint filers effective for taxable years beginning after December 31, 2012. For more information on Medicare, see CRS Report R41436, *Medicare Financing*, by Patricia A. Davis.

[7] Self-employed individuals are required to pay Social Security payroll taxes if they have annual net earnings of $400 or more. Only 92.35% of net self-employment income (up to the annual limit) is taxable.

[8] SSA, Office of the Chief Actuary, *Trust Fund Data*, at http://www.socialsecurity.gov/OACT/STATS/table4a3.html.

[9] The taxes associated with including Social Security benefits in federal taxable income go to the Social Security trust funds and the Medicare Hospital Insurance trust fund. See CRS Report RL32552, *Social Security: Calculation and History of Taxing Benefits*, by Noah P. Meyerson.

[10] The Social Security trust funds receive reimbursements from the general fund for (1) the cost of noncontributory wage credits for military service before 1957; (2) the cost in 1971-1982 of deemed wage credits for military service performed after 1956; (3) the cost of benefits to certain uninsured persons who attained the age of 72 before 1968; (4) the cost of payroll tax credits provided to employees in 1984 and self-employed persons in 1984-89 by P.L. 98-21; (5) the cost in 2009-2013 of excluding certain self-employment earnings from SECA taxes under P.L. 110-246; and (6) payroll tax revenue forgone under the provisions of P.L. 111-147, P.L. 111-312, P.L. 112-78, and P.L. 112-96. (Source: SSA, Office of the Chief Actuary, *Trust Fund Data*, at http://www.socialsecurity.gov/OACT/STATS/table4a3.html.)

[11] SSA, Office of the Chief Actuary, *Trust Fund Data*, at http://www.socialsecurity.gov/OACT/STATS/table4a3.html.

The Social Security Trust Funds as Designated Accounts

Within the U.S. Treasury, there are numerous accounts established for internal accounting purposes. Although all of the monies within the Treasury are federal monies, the designation of an account as a trust fund allows the government to track revenues (and expenditures) dedicated for specific purposes. In addition, the government can affect the level of revenues and expenditures associated with a trust fund through changes in the law.[12]

Social Security program income and outgo are accounted for in two separate trust funds authorized under Title II of the Social Security Act: (1) the Federal Old-Age and Survivors Insurance (OASI) trust fund and (2) the Federal Disability Insurance (DI) trust fund.[13] Under current law, the two trust funds are legally distinct and do not have authority to borrow from each other. This is important given current projections showing that the OASI fund will remain solvent until 2035, whereas the DI fund will remain solvent only until the end of 2016. Following the depletion of trust fund reserves (2016 for DI and 2035 for OASI), continuing income is projected to cover 81% of DI benefits and 77% of OASI benefits. In the past, Congress has authorized temporary interfund borrowing and payroll tax reallocations between OASI and DI to address funding imbalances. Therefore, this CRS report discusses the operations of the OASI and DI trust funds on a combined basis, referring to them collectively as the *Social Security trust funds*. On a combined basis, the Social Security trust funds are projected to remain solvent until 2034, at which point continuing income is projected to cover 79% of program costs. (For a detailed discussion of the status of the DI trust fund, see CRS Report R43318, *Social Security Disability Insurance (DI) Trust Fund: Background and Solvency Issues*.)

Social Security Trust Fund Revenues

The Social Security trust funds receive a credit equal to the Social Security payroll taxes deposited in the Treasury by the IRS.[14] The payroll taxes are allocated between the OASI and DI trust funds based on a proportion specified by law.[15] Currently, of the 6.2% payroll tax rate, 5.3% is allocated to the OASI trust fund and 0.9% is allocated to the DI trust fund.[16]

Social Security Trust Fund Costs

The Treasury makes Social Security benefit payments to entitled individuals on a monthly basis, as directed by the Social Security Administration (SSA) as to whom to pay and the amount of the

[12] For more information, see CRS Report R41328, *Federal Trust Funds and the Budget*, by Mindy R. Levit.

[13] Social Security Act, Title II, §201.

[14] In addition, a portion of the federal income taxes paid on Social Security benefits, reimbursements from the general fund, and the interest income on Social Security trust fund investments are credited to the Social Security trust funds.

[15] Social Security Act, Title II, §201(b).

[16] The share allocated to the DI trust fund was last changed (to 0.9%) in 2000, under a reallocation schedule established in 1994 under P.L. 103-387. For more information on past legislative changes to the allocation of payroll taxes between the OASI and DI trust funds, see CRS Report R43318, *Social Security Disability Insurance (DI) Trust Fund: Background and Solvency Issues*, by William R. Morton.

payment. When benefit payments are made by the Treasury, the Social Security trust funds are debited for the payments. Periodically, the Social Security trust funds are also debited for the administrative costs of the Social Security program. These administrative costs are incurred by several government agencies, including SSA, the Treasury, and the IRS.

Social Security Trust Fund Operations

The annual revenues to the Social Security trust funds are used to pay current Social Security benefits and administrative expenses. If, in any year, revenues are greater than costs, the surplus Social Security revenues in the Treasury are available for spending by the government on other (non-Social Security) spending needs at the time. If, in any year, costs are greater than revenues, the cash flow deficit is offset by selling some of the accumulated holdings of the trust funds (government securities) to help pay benefits and administrative expenses.

There are two measures of Social Security trust fund operations: the annual cash flow operations and the accumulated holdings (or trust fund balance).[17] The annual cash flow operations of the Social Security trust funds are a measure of current revenues and current costs. The cash flow operations are positive when current revenues exceed costs (a cash flow surplus) and negative when current costs exceed revenues (a cash flow deficit). In years with cash flow deficits, the Social Security program (unlike other federal programs that operate without a trust fund) may use the accumulated holdings of the Social Security trust funds from prior years to help pay benefits and administrative expenses.[18]

Although Social Security is a pay-as-you-go system, meaning that current revenues are used to pay current costs, changes made to the Social Security program in 1983 began a sustained period of annual cash flow surpluses through 2009.[19] Since 2010, however, Social Security has had annual cash flow deficits (program costs have exceeded tax revenues). The 2015 annual report of the Social Security Board of Trustees[20] projects that annual cash flow deficits will continue throughout the 75-year projection period (2015-2089) under the intermediate assumptions.

The 2015 Annual Report projects that the Social Security trust funds will remain solvent until 2034. Social Security benefits scheduled under current law can be paid in full and on time until then. This is one year later than projected in the previous three Annual Reports. In addition, the

[17] The accumulated holdings of the Social Security trust funds in U.S. government obligations are also referred to as the Social Security trust fund balance.

[18] Certain government projects may be given "budget authority until expended," which allows the authority to spend funds on the project to be carried over each year until all of the authority to spend funds has been exhausted.

[19] The Social Security Amendments of 1983 (P.L. 98-21) made a number of program changes, including the coverage of federal workers, an increase in the full retirement age and the taxation of Social Security benefits. For more information on the 1983 amendments, see CRS Report RL30920, *Social Security: Major Decisions in the House and Senate Since 1935*, by Gary Sidor.

[20] The Social Security Board of Trustees is composed of three officers of the President's cabinet (the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services), the Commissioner of Social Security, and two public representatives who are appointed by the President and subject to confirmation by the Senate. The Board of Trustees issues an annual report to Congress on the financial status of the Social Security trust funds. The trustees make three sets of projections based on low-cost, intermediate, and high-cost assumptions reflecting the uncertainty surrounding projections for a 75-year period. The trust fund projections cited in this CRS report are based on the intermediate (or "best estimate") assumptions of The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, Washington, DC, July 22, 2015, at http://www.socialsecurity.gov/OACT/TR/2015/index.html. (Hereinafter cited as 2015 Annual Report.)

average 75-year actuarial deficit for the trust funds is projected to be equal to 2.68% of taxable payroll. This is a decrease of 0.20 percentage point from the projection in the 2014 Annual Report. With respect to the change in the projected 75-year actuarial deficit, the trustees state,

> If the assumptions, methods, starting values, and the law had remained unchanged from last year, the actuarial deficit would have increased by about 0.06 percent of payroll due to advancing the valuation date by one year and including the year 2089. Changes in methods (for example, improved earnings projections for future beneficiaries), updated starting values, and revised economic assumptions (for example, an increased average real wage differential) account for most of the net decline in the actuarial deficit.[21]

As noted above, on a combined basis, the Social Security trust funds are projected to remain solvent until *2034*. Separately, however, the OASI trust fund is projected to remain solvent until *2035* (one year later than last year's projection) and the DI trust fund is projected to remain solvent until *2016* (the same year projected in the previous three Annual Reports). Under current law, therefore, DI benefits could not be paid in full and on time following DI trust fund exhaustion in 2016. With respect to the status of each of the trust funds (OASI and DI), the trustees state,

> The imminent depletion of Social Security's Disability Insurance (DI) Trust Fund reserves is but the first financing crisis arising from program cost growth trends that have been evident for the past few decades. Social Security DI faces unique policy challenges that lawmakers should address, distinct from those facing the OASI Trust Fund. At the same time, however, the projected imbalance of the OASI Trust Fund is larger in both absolute and relative terms than that facing the DI fund and arises from many of the same sources.
>
> Conflicting considerations arise from these factors. At this late date, it is impracticable to reduce DI costs sufficiently to prevent imminent Trust Fund depletion ... without at least a temporary increase in DI Trust Fund resources, irrespective of its source or combination with other measures. But on the other hand, DI already receives a higher share of the Social Security payroll tax relative to its projected obligations, than does OASI. Moreover, past DI income increases have generally been enacted in the context of legislation affecting projected program outlays, the sole recent exception in 1994 being preceded by a Trustees' warning that a further reallocation to DI from OASI "would ultimately raise concern about the financial viability of the retirement and survivors program." Any necessary resource reallocation that does occur should not be regarded as a substitute for action to sustain the finances of DI and Social Security as a whole, nor enacted in a manner that has the effect of further postponing those required corrections.[22]

Table 1 shows the annual cash flow operations of the Social Security trust funds (non-interest income, costs, and cash flow surpluses/deficits) for the historical period 1957 to 2014. From 1957 to 1983 (the last time Congress enacted major amendments to the program), the Social Security trust funds operated with a cash flow deficit (costs exceeded non-interest income) in 19 of the 27

[21] Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs: A Summary of the 2015 Annual Reports*, July 22, 2015, p. 12, at http://www.socialsecurity.gov/OACT/TRSUM/tr15summary.pdf. (Hereinafter cited as Summary of the 2015 Annual Report.)

[22] Summary of the 2015 Annual Report, *A Message from the Public Trustees*, p. 17. The reference to 1994 points to the last time Congress enacted legislation that reallocated payroll taxes between the OASI and DI trust funds. The provision was included in the Social Security Domestic Employment Reform Act of 1994 (H.R. 4278, 103rd Congress), which became P.L. 103-387. For information on payroll tax reallocations between OASI and DI and related topics, see CRS Report R43318, *Social Security Disability Insurance (DI) Trust Fund: Background and Solvency Issues*, by William R. Morton.

years. Since 1984, the trust funds have operated with a cash flow deficit in 5 of the past 31 years (2010 to 2014).

Table 1. Operations of the Social Security Trust Funds, Historical Period 1957-2014

($ in billions)

Year	Non-Interest Income[a]	Costs	Cash Flow Surpluses or Deficits (non-interest income less costs)
1957	$7.5	$7.6	($0.1)
1958	8.5	8.9	(0.4)
1959	8.9	10.8	(1.9)
1960	11.8	11.8	0.0
1961	12.3	13.4	(1.1)
1962	13.1	15.2	(2.1)
1963	15.6	16.2	(0.6)
1964	16.9	17.0	(0.1)
1965	17.2	19.2	(2.0)
1966	22.7	20.9	1.8
1967	25.5	22.5	3.0
1968	27.5	26.0	1.5
1969	32.0	27.9	4.1
1970	35.2	33.1	2.1
1971	38.9	38.5	0.4
1972	43.4	43.3	0.1
1973	52.4	53.1	(0.7)
1974	59.4	60.6	(1.2)
1975	64.7	69.2	(4.5)
1976	72.3	78.2	(5.9)
1977	79.5	87.3	(7.8)
1978	89.6	96.0	(6.4)
1979	103.7	107.3	(3.6)
1980	117.4	123.5	(6.1)
1981	140.2	144.4	(4.2)
1982	146.5	160.1	(13.6)
1983	163.0	171.2	(8.2)
1984	183.2	180.4	2.8
1985	200.8	190.6	10.2
1986	212.9	201.5	11.4
1987	225.7	209.1	16.6

Year	Non-Interest Income[a]	Costs	Cash Flow Surpluses or Deficits (non-interest income less costs)
1988	255.3	222.5	32.8
1989	276.7	236.2	40.5
1990	298.2	253.1	45.1
1991	307.8	274.2	33.6
1992	317.2	291.9	25.3
1993	327.7	308.8	18.9
1994	350.0	323.0	27.0
1995	364.5	339.8	24.7
1996	385.8	353.6	32.2
1997	413.9	369.1	44.8
1998	439.9	382.3	57.6
1999	471.1	392.9	78.2
2000	503.9	415.1	88.8
2001	529.1	438.9	90.2
2002	546.7	461.7	85.0
2003	547.0	479.1	67.9
2004	568.7	501.6	67.1
2005	607.5	529.9	77.6
2006	642.5	555.4	87.1
2007	674.7	594.5	80.2
2008	689.0	625.1	63.9
2009	689.2	685.8	3.4
2010	663.6	712.5	(48.9)
2011	690.7	736.1	(45.4)
2012	731.1	785.8	(54.7)
2013	752.2	822.9	(70.7)
2014	786.1	859.2	(73.1)

Source: Table prepared by the Congressional Research Service (CRS) from data provided in the 2015 Annual Report, Table VI.A3, pp. 158-159, at http://www.ssa.gov/oact/tr/2015/VI_A_cyoper_hist.html#293711.

a. Non-interest income is equal to total income minus net interest. Stated another way, non-interest income includes net payroll tax contributions, reimbursements from the general fund of the Treasury to the Social Security trust funds, and federal income tax revenues from the taxation of benefits.

Table 2 shows the projected annual cash flow operations of the Social Security trust funds (non-interest income, costs, and cash flow deficits) for the 2015 to 2033 period, as projected by the Social Security trustees in the 2015 Annual Report (under the intermediate assumptions). The trustees project that the Social Security trust funds will operate with a cash flow deficit each year throughout the current projection period.

Table 2. Projected Operations of the Social Security Trust Funds, 2015-2033

($ in billions)

Year[a]	Non-Interest Income[b]	Costs	Cash Flow Deficits (non-interest income less costs)
2015	$820.8	$904.7	($83.9)
2016	872.9	940.6	(67.7)
2017	935.5	1,006.8	(71.3)
2018	995.9	1,075.5	(79.6)
2019	1,055.7	1,148.3	(92.6)
2020	1,115.9	1,224.5	(108.6)
2021	1,177.7	1,301.1	(123.4)
2022	1,240.3	1,383.9	(143.6)
2023	1,303.0	1,472.3	(169.3)
2024	1,367.7	1,566.0	(198.3)
2025	1,430.2	1,657.9	(227.7)
2026	1,495.2	1,753.9	(258.7)
2027	1,562.5	1,854.0	(291.5)
2028	1,632.0	1,958.0	(326.0)
2029	1,703.8	2,065.3	(361.5)
2030	1,778.6	2,176.2	(397.6)
2031	1,856.3	2,290.1	(433.8)
2032	1,937.2	2,407.2	(470.0)
2033	2,021.8	2,526.8	(505.0)

Source: Table prepared by CRS from data provided in Table VI.G8 (intermediate assumptions), Supplemental Single-Year Tables Consistent with the 2015 Annual Report, at http://www.socialsecurity.gov/oact/tr/2015/lr6g8.html.

a. Projections for years after 2033 are not shown because the Social Security trust funds are projected to be exhausted in 2034 under the intermediate assumptions.

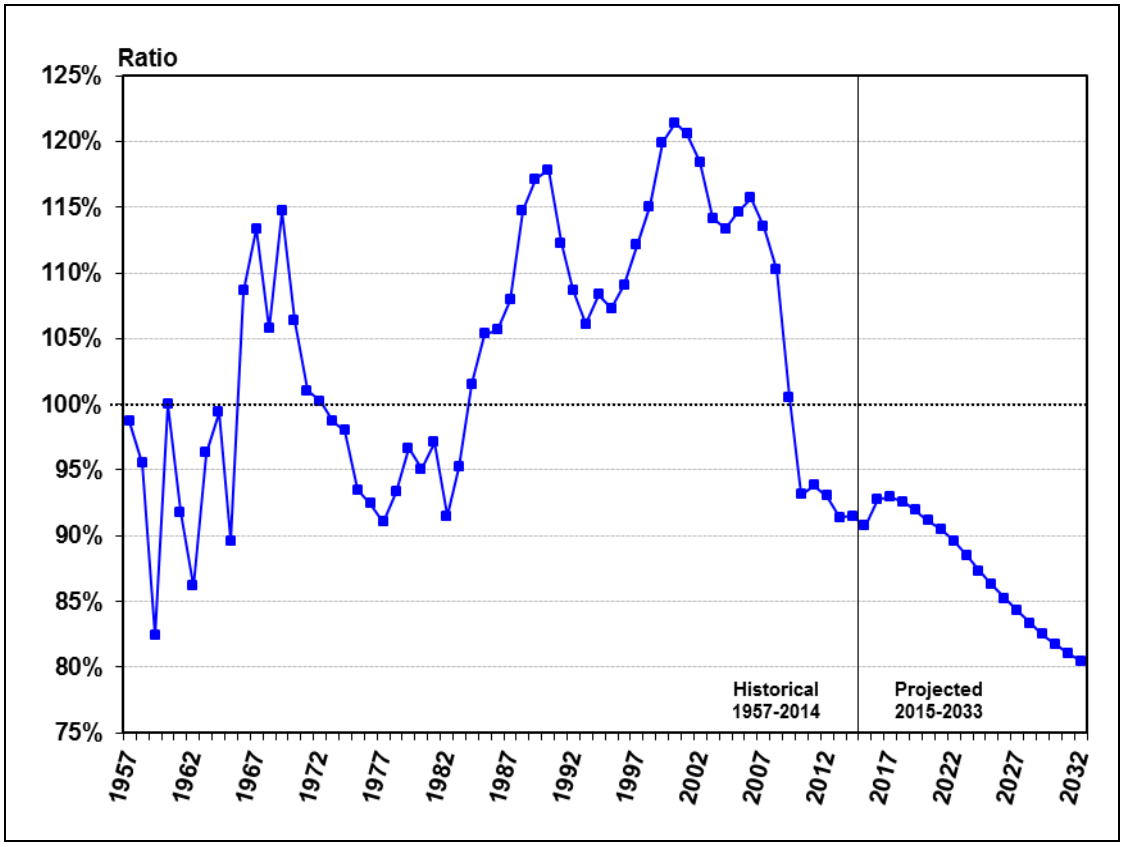
b. Non-interest income is equal to total income minus interest income.

One way to measure the cash flow operations over time is to take the ratio of current non-interest income to current costs for each year. A ratio greater than 100% indicates positive cash flow (a cash flow surplus); a ratio less than 100% indicates negative cash flow (a cash flow deficit). **Figure 1** shows the ratio of current non-interest income to current costs for the Social Security trust funds each year over the historical period 1957 to 2014 and over the 2015 to 2033 period, as projected by the Social Security trustees in the 2015 Annual Report (under the intermediate assumptions).[23]

[23] 2015 Annual Report, Table VI.A3, pp. 158-159, at http://www.ssa.gov/oact/tr/2015/VI_A_cyoper_hist.html#293711; and Table VI.G8 (intermediate assumptions), Supplemental Single-Year Tables Consistent with the 2015 Annual Report, at http://www.socialsecurity.gov/oact/tr/2015/lr6g8.html.

As shown in the figure, in 2009, non-interest income of $689.2 billion divided by costs of $685.8 billion results in a ratio just over 100% (100.5%), indicating a cash flow surplus for the Social Security trust funds. By comparison, in 2014, non-interest income of $786.1 billion divided by costs of $859.2 billion results in a ratio of 91.5%, indicating a cash flow deficit for the Social Security trust funds. In the 2015 Annual Report, the Social Security trustees project that the ratio of current non-interest income to current costs will remain below 100% for the remainder of the projection period, with the gap between non-interest income and costs increasing over time (under the intermediate assumptions).

Figure 1. Ratio of Current Non-Interest Income to Costs for the Social Security Trust Funds, 1957-2033



Source: Figure prepared by CRS from data provided in the 2015 Annual Report, Table VI.A3, pp. 158-159, at http://www.ssa.gov/oact/tr/2015/VI_A_cyoper_hist.html#293711; and Table VI.G8 (intermediate assumptions), Supplemental Single-Year Tables Consistent with the 2015 Annual Report, at http://www.socialsecurity.gov/oact/tr/2015/lr6g8.html.

Notes: Non-interest income excludes interest on accumulated holdings of U.S. government obligations. A ratio above 100% indicates a cash flow surplus for the year. A ratio below 100% indicates a cash flow deficit.

When the Social Security trust funds operate with annual cash flow deficits, the Treasury can continue to pay benefits at levels scheduled under current law as long as the accumulated balance in the trust funds is sufficient to cover the costs. This is because the Social Security program has budget authority to pay benefits in full and on time as long as there is an adequate balance in the Social Security trust funds (the designated accounts). When current revenues are not sufficient to pay benefits, however, the U.S. government must raise the funds necessary to honor the redemption of U.S. government obligations held by the Social Security trust funds as they are

needed to pay benefits. If there are no surplus governmental receipts, the U.S. government may raise the necessary funds by increasing taxes or other income, reducing other spending, borrowing from the public (i.e., replacing bonds held by the trust funds with bonds held by the public), or some combination of these measures.

Investment of the Social Security Trust Funds

The Secretary of the Treasury is required by law to invest Social Security revenues in securities backed by the U.S. government.[24] In addition, the Social Security trust funds receive interest on its holdings of special U.S. government obligations. Each government security issued by the Treasury for purchase by the Social Security trust funds must be a paper instrument in the form of a bond, note, or certificate of indebtedness.[25] Specifically, Section 201(d) of the Social Security Act states,

> Each obligation issued for purchase by the Trust Funds under this subsection shall be evidenced by a paper instrument in the form of a bond, note, or certificate of indebtedness issued by the Secretary of the Treasury setting forth the principal amount, date of maturity, and interest rate of the obligation, and stating on its face that the obligation shall be incontestable in the hands of the Trust Fund to which it is issued, that the obligation is supported by the full faith and credit of the United States, and that the United States is pledged to the payment of the obligation with respect to both principal and interest. The Managing Trustee may purchase other interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price, only where he determines that the purchase of such other obligations is in the public interest.

Any interest or proceeds from the sale of government securities held by the Social Security trust funds must be paid in the form of paper checks from the general fund of the Treasury to the Social Security trust funds.[26] The interest rates paid on the government securities issued to the Social Security trust funds are tied to market rates.[27]

For internal federal accounting purposes, when special U.S. government obligations are purchased by the Social Security trust funds, the Treasury is shifting surplus Social Security revenues from one government account (the Social Security trust funds) to another government account (the Treasury's "general fund" account). The special U.S. government obligations are physical documents held by SSA, not the U.S. Treasury. The government securities held by the Social Security trust funds are redeemed on a regular basis. These special U.S. government obligations, however, are not resources for the government because they represent both an asset and a liability for the government.[28]

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[24] Social Security Act, Title II, §201(d). For more information, see SSA, Office of the Chief Actuary, Actuarial Note Number 142, *Social Security Trust Fund Investment Policies and Practices*, by Jeffrey L. Kunkel, January 1999, at http://www.ssa.gov/OACT/NOTES/n1990s.html.

[25] Social Security Act, Title II, §201(d).

[26] Social Security Act, Title II, §201(f). The funds are then used to purchase additional government securities credited to the Social Security trust funds.

[27] For more information, see CRS Report RS20607, *Social Security: Trust Fund Investment Practices*, by Dawn Nuschler.

[28] For SSA's perspective on the government securities held by the trust funds, see SSA, *Trust Fund FAQs*, at http://www.ssa.gov/oact/progdata/fundFAQ.html.

The Social Security Trust Funds and the Federal Budget

The Social Security program is indirectly part of the annual congressional budget process. This creates some confusion on the part of the public.

On-Budget Versus Off-Budget

For federal budget purposes, *on-budget* status generally refers to programs that are included in the annual congressional budget process, whereas *off-budget* status generally refers to programs that are not included in the annual congressional budget process.

The Social Security program is a government program that, like the Postal Service, has had its receipts and (most) outlays designated by law as off-budget.[29] The off-budget designation, however, has no practical effect on program funding, spending, or operations. The annual congressional budget resolution, in its legislative language, separates the off-budget totals (receipts and outlays) from the on-budget totals (receipts and outlays). The report language accompanying the congressional budget resolution usually shows the unified budget totals (which combine the on- and off-budget amounts) as well as the separate on- and off-budget totals. The President's budget tends to use the unified budget measures in discussing the budget totals. The President's budget documents also include the totals for the on- and off-budget components, as required by law. The Congressional Budget Office uses the unified budget numbers in its analyses of the budget; it generally does not include on- and off-budget data in its regular annual reports.

The unified budget framework is important because it includes all federal receipts and outlays providing a more comprehensive picture of the size of the federal government, as well as the impact of the federal budget on the economy. In the unified budget, the Social Security program is a large source of both federal receipts (24% in FY2014) and outlays (24% in FY2014).[30] For purposes of the unified budget, the annual Social Security cash flow surplus or deficit is counted in determining the overall federal budget surplus or deficit.

The Social Security Trust Funds as Accumulated Holdings

The Social Security trust funds can be viewed as trust funds, similar to any private trust funds, that are to be used for paying current and future benefits (and administrative expenses). By law, Social Security revenues credited to the trust funds (within the U.S. Treasury) are invested in non-marketable U.S. government obligations. These obligations are physical (paper) documents issued to the trust funds and held by SSA. When the obligations are redeemed, the Treasury must

[29] Although the Social Security program is off-budget, the annual congressional budget process does provide the budget authority for Social Security administrative spending. SSA's administrative funding is subject to an annual appropriated limit. In contrast, the Social Security program has budget authority to pay benefits as long as there is a sufficient balance in the Social Security trust funds (the designated accounts).

[30] Percentages calculated by the Congressional Research Service (CRS) from data provided in: Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2016*, Tables 2.1, 2.4, 6.1 and 13.1.

issue a check (a physical document) to the Social Security trust funds for the interest earned on the obligations.[31]

Unlike a private trust that may hold a variety of assets and obligations of different borrowers, the Social Security trust funds can hold only U.S. government obligations. The sale of these obligations by the U.S. government to the Social Security trust funds is federal government borrowing (from itself) and counts against the federal debt limit. The requirement that the Social Security trust funds purchase U.S. government obligations serves several purposes, such as

- offering a mechanism for the Social Security program to recoup the surplus revenues loaned to the rest of the government;
- paying interest so that the loan of the surplus revenues does not lose value over time;
- ensuring that the Social Security trust funds (and not other government accounts) receives credit for the interest earnings;
- ensuring a level of return (interest) to the Social Security trust funds; and
- providing a means outside of the securities market for the U.S. government to borrow funds.

The accumulated holdings of the Social Security trust funds represent the sum of annual surplus Social Security revenues (for all past years) which were invested in U.S. government obligations, plus the interest earned on those obligations. As a result of surplus Social Security revenues from 1984 to 2009 and the interest income credited to the Social Security trust funds, the accumulated holdings of the Social Security trust funds totaled $2.8 trillion at the end of calendar year 2014.[32] It is the accumulated holdings of the Social Security trust funds (or the trust fund balance) that many people refer to when discussing the Social Security trust funds. **Table 3** shows the accumulated holdings of the Social Security trust funds for the historical period 1957 to 2014. **Table 4** shows the projected accumulated holdings of the Social Security trust funds for the 2015 to 2033 period, as projected by the Social Security trustees in the 2015 Annual Report (under the intermediate assumptions). The Social Security trustees project that the level of accumulated trust fund holdings will continue to increase from 2015 through 2019, due to interest income to the trust funds. Under the current projections, the level of accumulated holdings will begin to decline in 2020, and the Social Security trust funds will be exhausted in 2034.[33]

The Social Security trustees project that, on average over the next 75 years (2015 to 2089), program costs will exceed income by an amount equal to 2.68% of taxable payroll (on average, costs are projected to exceed income by about 19%).[34] The gap between income and costs,

[31] The funds are then used to purchase additional government securities credited to the Social Security trust funds.

[32] The Social Security trust funds also receive reimbursements from the general fund of the Treasury for a variety of purposes. In 2011 and 2012, the trust funds received relatively large reimbursements from the general fund ($102.7 billion and $114.3 billion, respectively). In those years, general revenues were credited to the trust funds to make up for forgone payroll tax revenues under a temporary 2 percentage point reduction in the payroll tax rate for employees.

[33] Under the intermediate assumptions of the 2015 Annual Report, the Social Security trustees project that program costs will exceed total income (tax revenues plus interest income) beginning in 2020. At that point, the combined trust fund balance will begin to be drawn down to help pay benefits and administrative expenses. The trustees project that the assets (government securities) held by the trust funds will be exhausted in 2034. Following the exhaustion of trust fund reserves, the program will continue to operate with incoming receipts.

[34] Program costs and income are evaluated as a percentage of taxable payroll because Social Security payroll taxes are (continued...)

however, is projected to increase over the 75-year period. For example, in 2035, the cost of the program is projected to exceed income by an amount equal to 3.42% of taxable payroll (costs are projected to exceed income by about 26%). By 2085, the cost of the program is projected to exceed income by an amount equal to 4.50% of taxable payroll (costs are projected to exceed income by about 34%).[35]

The Social Security trustees project that the Social Security trust funds would remain solvent throughout the 75-year projection period if, for example,

- revenues were increased by an amount equivalent to an immediate and permanent payroll tax rate increase of 2.62 percentage points (from 12.40% to 15.02%; a relative increase of 21.1%);[36]
- benefits scheduled under current law were reduced by an amount equivalent to an immediate and permanent reduction of (a) 16.4% if applied to all current and future beneficiaries, or (b) 19.6% if applied only to those who become eligible for benefits in 2015 or later; or
- some combination of these approaches were to be adopted.[37]

Table 3. Accumulated Holdings of the Social Security Trust Funds, Historical Period 1957-2014

($ in billions)

Year	Accumulated Holdings[a]	Year	Accumulated Holdings[a]
1957	$23.0	1986	$46.9
1958	23.2	1987	68.8
1959	22.0	1988	109.8
1960	22.6	1989	163.0
1961	22.2	1990	225.3
1962	20.7	1991	280.7
1963	20.7	1992	331.5
1964	21.2	1993	378.3

(...continued)

the primary source of funding for the program. As the trustees note, "taxable payroll consists of the total earnings subject to OASDI taxes with some relatively small adjustments." (2015 Annual Report, p. 52.)

[35] The 75-year "open group unfunded obligation" for Social Security is $10.7 trillion (in present value terms).

[36] The Social Security trustees explain that the projected increase in the payroll tax rate needed for the trust funds to remain solvent throughout the 75-year projection period (2.62 percentage points) differs from the projected 75-year actuarial deficit (2.68% of taxable payroll) for two reasons. The trustees state on page 6 of the 2015 Annual Report: "First, the necessary tax rate is the rate required to maintain solvency throughout the period that does not result in any trust fund reserve at the end of the period, whereas the actuarial deficit incorporates an ending trust fund reserve equal to 1 year's cost. Second, the necessary tax rate reflects a behavioral response to tax rate changes, whereas the actuarial deficit does not. In particular, the calculation of the necessary tax rate assumes that an increase in payroll taxes results in a small shift of wages and salaries to forms of employee compensation that are not subject to the payroll tax."

[37] 2015 Annual Report, pp. 5-6.

Year	Accumulated Holdings[a]	Year	Accumulated Holdings[a]
1965	19.8	1994	436.4
1966	22.3	1995	496.1
1967	26.3	1996	567.0
1968	28.7	1997	655.5
1969	34.2	1998	762.5
1970	38.1	1999	896.1
1971	40.4	2000	1,049.4
1972	42.8	2001	1,212.5
1973	44.4	2002	1,378.0
1974	45.9	2003	1,530.8
1975	44.3	2004	1,686.8
1976	41.1	2005	1,858.7
1977	35.9	2006	2,048.1
1978	31.7	2007	2,238.5
1979	30.3	2008	2,418.7
1980	26.5	2009	2,540.3
1981	24.5	2010	2,609.0
1982	24.8	2011	2,677.9
1983	24.9	2012	2,732.3
1984	31.1	2013	2,764.4
1985	42.2	2014	2,789.5

Source: Table prepared by CRS from data provided in the 2015 Annual Report, Table VI.A3, pp. 158-159, at http://www.ssa.gov/oact/tr/2015/VI_A_cyoper_hist.html#293711. Accumulated holdings are end-of-year totals.

a. The accumulated holdings of the Social Security trust funds are also referred to as the trust fund balance.

Table 4. Projected Accumulated Holdings of the Social Security Trust Funds, 2015-2033

($ in billions)

Year[a]	Accumulated Holdings[b]	Year[a]	Accumulated Holdings[b]
2015	$2,798.7	2025	$2,489.5
2016	2,820.7	2026	2,339.8
2017	2,839.4	2027	2,157.8
2018	2,852.3	2028	1,939.2
2019	2,854.9	2029	1,679.8
2020	2,843.8	2030	1,368.7
2021	2,819.2	2031	1,002.8

Year[a]	Accumulated Holdings[b]	Year[a]	Accumulated Holdings[b]
2022	2,775.6	2032	579.1
2023	2,707.4	2033	95.5
2024	2,611.0		

Source: Table prepared by CRS from data provided in Table VI.G8 (intermediate assumptions), Supplemental Single-Year Tables Consistent with the 2015 Annual Report, at http://www.socialsecurity.gov/oact/tr/2015/lr6g8.html. Accumulated holdings are end-of-year totals.

a. Projections for years after 2033 are not shown because the Social Security trust funds are projected to be exhausted in 2034 under the intermediate assumptions.

b. The accumulated holdings of the Social Security trust funds are also referred to as the trust fund balance.

The Social Security Trust Funds and the Level of Federal Debt

As part of the annual congressional budget process, the level of federal debt (the federal debt limit) is set for the budget by Congress. The federal debt limit includes debt held by the public as well as the internal debt of the U.S. government (i.e., debt held by government accounts). Borrowing from the public and the investment of the Social Security trust funds in special U.S. government obligations both fall under the restrictions of the federal debt limit. This means that the Social Security trust fund balance has implications for the federal debt limit.[38]

The Social Security Trust Funds and Benefit Payments

The accumulated holdings of the Social Security trust funds, which represent budget authority for the program, can be viewed as a measure of funds dedicated to pay current and future benefits. However, when current tax revenues are below levels needed to pay benefits,[39] these funds (the accumulated holdings) are available to pay benefits only as the government raises the resources necessary to pay for the securities as they are redeemed by the Social Security trust funds. The securities are a promise, by the U.S. government, to raise the necessary funds.[40] When the system is operating with a cash flow surplus, the surplus Social Security revenues (which are invested in government securities held by the trust funds) are used to fund other government activities at the time. The surplus Social Security revenues, therefore, are not available to finance benefits directly when the system is operating with a cash flow deficit.

Stated another way, when the Social Security trust funds operate with annual cash flow deficits, the trust funds redeem more federal government securities than the amount of current Social Security tax revenues, relying in part on accumulated trust fund holdings to pay benefits and

[38] For a discussion of how reaching the debt limit potentially could affect Social Security trust fund investment practices and benefit payments, see CRS Report R41633, *Reaching the Debt Limit: Background and Potential Effects on Government Operations*, by D. Andrew Austin et al.

[39] In the 2015 Annual Report, the Social Security trustees project that revenues will remain below program costs each year throughout the 75-year projection period (2015-2089), under the intermediate assumptions.

[40] If there are no surplus governmental receipts, the U.S. government may raise the necessary funds by increasing taxes or other income, reducing other spending, borrowing from the public (i.e., replacing bonds held by the trust funds with bonds held by the public), or some combination of these measures.

administrative expenses. Because the federal government securities held by the trust funds are redeemed with general revenues, this results in increased spending for Social Security from the general fund. With respect to the Social Security program's reliance on general revenues, it is important to note that Social Security does not have authority to borrow from the general fund of the Treasury. Rather, the program relies on revenues collected for Social Security purposes in previous years that were used by the federal government at the time for other (non-Social Security) spending needs and interest income earned on trust fund investments. The program draws on those previously collected Social Security tax revenues and interest income (accumulated trust fund holdings) when current Social Security tax revenues fall below current program expenditures.

The Social Security trustees project that the accumulated holdings of the Social Security trust funds will be exhausted in 2034. At that time, the program will continue to operate with incoming receipts to the trust funds that are projected to equal 79% of program costs. By the end of the projection period (2089), incoming receipts are projected to equal 73% of program costs (based on the intermediate assumptions of the 2015 Annual Report).[41] The Social Security Act does not state what would happen to the payment of benefits scheduled under current law in the event of Social Security trust fund exhaustion. Two possible scenarios are (1) the payment of full monthly benefits on a delayed schedule, or (2) the payment of partial (reduced) monthly benefits on time.[42]

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[41] 2015 Annual Report, p. 12.

[42] As noted previously, the OASI trust fund is projected to be exhausted in 2035, and the DI trust fund is projected to be exhausted in 2016. Under current law, therefore, DI benefits could not be paid in full and on time following DI trust fund exhaustion in 2016. For more information, see CRS Report R43318, *Social Security Disability Insurance (DI) Trust Fund: Background and Solvency Issues*, by William R. Morton; CRS Report RL33514, *Social Security: What Would Happen If the Trust Funds Ran Out?*, by Noah P. Meyerson; and CRS Report RL32822, *Social Security Reform: Legal Analysis of Social Security Benefit Entitlement Issues*, by Emily M. Lanza and Thomas J. Nicola.